

CITY OF SOMERS

**INDEPENDENT ACCOUNTANT'S REPORT
ON THE STATUS OF PERIODIC EXAMINATION
FINDINGS AND RECOMMENDATIONS**

**FOR THE PERIOD
DECEMBER 1, 2015 THROUGH MAY 31, 2016**

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City of Somers

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
<u>(Before January 2016)</u>		
Terry Vote	Mayor	Jan 2016
Dan Goodwin	Council Member	Jan 2016
Jerry Lawman	Council Member	Jan 2016
Lance Peed	Council Member	Jan 2016
Helen Schroeder	Council Member	Jan 2016
Tom Beacon	Council Member	Jan 2016
Eileen McGuire	City Clerk	Indefinite
Darren Drisoll	City Attorney	Indefinite
<u>(After January 2016)</u>		
Terry Vote	Mayor	Jan 2018
Dan Goodwin	Council Member	Jan 2018
Alan Niceswanger	Council Member	Jan 2018
Rick Chase	Council Member	Jan 2018
Helen Schroeder	Council Member	Jan 2018
Tom Beacon	Council Member	Jan 2018
Eileen McGuire	City Clerk	Indefinite
Darren Drisoll	City Attorney	Indefinite



Independent Accountant's Report on the Status of Periodic
Examination Findings and Recommendations

To the Honorable Mayor
and Members of City Council:

Faller, Kincheloe & Co, PLC issued a Periodic Examination Report dated November 17, 2014 on the City of Somers, Iowa covering the period August 1, 2013 through July 31, 2014 pursuant to Chapter 11.6 of the Code of Iowa. The report included certain findings and recommendations pertaining to the City's financial processes and compliance with laws and regulations.

This report includes the findings and recommendations from the City's Periodic Examination Report dated November 17, 2014 and the current status of the City's implementation of the recommendations included in that report. It also includes an additional finding and recommendation for other issues identified during our follow-up procedures.

The City Council has a fiduciary responsibility to provide oversight of the City's operations and financial transactions. Oversight is typically defined as the "watchful and responsible care" a governing body exercises in its fiduciary capacity. Many of the findings included in this report indicate the City Council needs to exercise additional fiduciary oversight.

Oversight by the City Council is essential and should be an ongoing effort by all members. The City Council should exercise due care and require and review pertinent information and documentation to ensure the reliability of financial information and compliance with laws and regulations. Appropriate policies and procedures should be adopted, implemented and monitored to ensure compliance.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of the City of Somers and other parties to whom the City of Somers may report. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of the City of Somers during the course of our follow-up procedures. Should you have questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

Faller, Kincheloe & Co, PLC

October 17, 2016

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Report on the Status of Periodic Examination Findings and Recommendations

Findings Reported in the Periodic Examination Report dated November 17, 2014:

(A) Segregation of Duties – One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. Generally, one individual has control over each of the following areas for the City:

1. Cash – handling, reconciling and recording.
2. Receipts – opening mail, collecting, depositing, journalizing, reconciling and posting.
3. Disbursements – purchasing, invoice processing, check writing, mailing, reconciling and recording.
4. Payroll – recordkeeping, preparation and distribution.
5. Utilities – billing, collecting, depositing and posting.
6. Financial reporting – preparing and reconciling.
7. Journal entries – preparing and journalizing.

Recommendation – We realize segregation of duties is difficult with a limited number of employees. However, the City should review its control procedures to obtain the maximum internal control possible under the circumstances utilizing currently available staff, including elected officials. Independent reviews of reconciliations should be evidenced by the signature or initials of the reviewer and the date of the review.

Current Status – Not corrected. The recommendation is repeated.

(B) Reconciliation of Utility Billings, Collections and Delinquent Accounts - Utility billings, collections and delinquent accounts were not reconciled throughout the year.

Recommendation – Procedures should be established to reconcile utility billings, collections and delinquent accounts for each billing period. The City Council or other independent person designated by the City Council should review the reconciliations and monitor delinquent accounts. The reviews should be documented by signing or initialing and dating the reconciliations.

Current Status – Not corrected. The recommendation is repeated.

(C) Clerk's Report – Although monthly Clerks' reports are prepared, a budget vs actual comparison was not present.

Recommendation – The City should establish procedures to ensure the monthly Clerk's reports include a budget vs actual comparison.

Current Status – Not corrected. The recommendation is repeated.

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(D) City Council Minutes – The following were identified:

- Chapter 372.13(6) of the Code of Iowa requires the minutes of all City Council proceedings to include total disbursements from each fund and a summary of all receipts. We noted that these requirements were not met by the City for the four meetings tested.
- A list of all approved claims was not posted for the four meetings tested as required by Chapter 372.13(6) of the Code of Iowa.

Recommendation – The City should comply with the Code of Iowa and post total disbursements from each fund, a summary of all receipts, and the list of all approved claims as required.

Current Status – Not corrected. The recommendation is repeated.

(E) Investment Policy – The City has not adopted a written investment policy as required by Chapter 12B.10B of the Code of Iowa.

Recommendation – The City should adopt a written investment policy that complies with the provisions of Chapter 12B.10B of the Code of Iowa.

Current Status – Not corrected. The recommendation is repeated.

(F) Chart of Accounts – The City has not fully implemented the Uniform Chart of Accounts (COA) for Iowa City Governments approved by the City Finance Committee on September 25, 2002.

Recommendation – To provide better financial information and control, the COA, or its equivalent, should be followed.

Current Status – Not corrected. The recommendation is repeated.

(G) Local Option Sales and Services Tax – The City imposed a local option sales tax in the City with receipts to be allocated 50% to the General Fund, 25% to the Drainage Fund and 25% to the Water Loan Fund. All of the local option sales tax receipts are recorded in the General Fund. Documentation was not maintained to demonstrate that the local option sales tax receipts were spent in accordance with the provisions of the referendum authorizing the collection of the tax.

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Recommendation – The City should maintain documentation to demonstrate local option sales tax collections are disbursed in compliance with the provisions of the referendum.

Current Status – Corrected. The City maintains documentation of local option sales tax collections and disburses them annually to the funds specified in the local option sales tax ballot.

- (H) Financial Condition – At July 31, 2014, the City has a deficit balance of \$41,028 in the Enterprise, Water Fund.

Recommendation – The City should investigate alternatives to eliminate this deficit to return the fund to a sound financial position.

Current Status – Not corrected. At June 30, 2016, the City had a deficit balance of \$33,568 in the Enterprise, Water Fund.

- (I) Electronic Check Retention – Chapter 554D.114 of the Code of Iowa allows the City to retain cancelled checks in an electronic format and requires retention in this manner to include an image of both the front and back of each cancelled check. The City does not receive an image of the back of each cancelled check.

Recommendation – The City should obtain and retain images of both the front and back of cancelled checks as required by Chapter 554D.114 of the Code of Iowa.

Current Status – Corrected. The City receives images of both the front and the back of each cancelled check.

- (J) Payroll – Payroll taxes and IPERS are being calculated properly and deducted from the employee's paychecks. However, the IRS Form 941's reported an incorrect amount of wages subject to federal withholding.

Also the City did not prepare any IRS Forms 1099 for the year ended December 31, 2013. We noted that one vendor was paid for services greater than \$600 and should have been issued a Form 1099.

Recommendation – The City should ensure future IRS payroll tax forms are calculated and filed properly. Also the City should file IRS Forms 1099 when applicable.

Current Status – Partially corrected. For the year ended December 31, 2015, the City did prepare an IRS Form 1099 for snow plow services. The IRS Forms 941 reported an incorrect amount of wages subject to federal withholding.

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- (K) Water Revenue Notes – The provisions of the water revenue notes resolution require the City produce net operating receipts equal to at least 110% of the principal and interest on notes falling due in the same year. Since the City's Enterprise, Water Fund is in a deficit position, the City has not maintained sufficient user rates.

The provisions of the water revenue notes also require sufficient monthly transfers to be made to a separate water revenue note sinking account for the purpose to making the note principal and interest payments when due. The City has not made the required transfers to this account.

Recommendation – The City should review its water rate structure and expenses and adjust to ensure collection of net receipts of at least 110% of the principal and interest payments falling due in the same year. The City should also establish a water revenue note sinking account and ensure monthly transfers are made to the water revenue note sinking account as required.

Current Status – Partially corrected. For the period tested, the City produced net operating receipts equal to at least 110% of the principal and interest on notes falling due within the same year. However, the City still has an accumulated deficit in the Enterprise, Water Fund. The City also has not established a water revenue note sinking account for the purpose of making the note principal and interest payments when due.

- (L) Business Transactions – Business transactions between the City and City officials or employees are detailed as follows:

Name, Title, and Business Connection	Transaction Description	Amount
John McGuire, Spouse of Clerk	Snow plow services	\$4,760

In accordance with Chapter 362.5(k) of the Code of Iowa, the above transactions with John McGuire may represent a conflict of interest since the total transactions were more than \$2,500 during the fiscal year and the transactions were not competitively bid.

Recommendation - The City should consult legal counsel to determine the disposition of this matter.

Current Status – Not corrected. The same vendor was paid \$3,500 during the period tested. The recommendation is repeated.

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(M)Disbursements – Certain invoices were not approved by the City Council.

Recommendation – All invoices should be approved by the City Council.

Current Status – Partially corrected. Library invoices and loan payments are not approved by the City Council.

(N)Certified Budget – The City’s budget documents did not list two of the City’s long-term debt issues on the budget’s long-term debt schedule filed with the State of Iowa. The listing of the City’s debt on the long-term debt schedule in the budget documents is required by the State of Iowa.

There was no evidence in the City Council minutes that a public hearing was held on the fiscal year 2014 budget, as required by Chapter 384.16(3) of the Code of Iowa.

Recommendation – The City should ensure all of the City’s long-term debt is listed on the long-term debt schedule in the budget as required by the State of Iowa. In addition, the City should ensure that public hearings are held when required and that the City Council minutes document all public hearings.

Current Status – Corrected. The City’s budget documents filed with the State of Iowa list the City’s long-term debt issues. The Notice of Public Hearing for the proposed city budget for fiscal year beginning July 1, 2016 was posted on March 14, 2016. The Public Hearing was held on March 28, 2016 and was documented in the City Council minutes.

(O)Debt Service – For the year ended June 30, 2014, the City levied a debt service levy of \$3,845. However, there was no documentation that the City issued general obligation debt which was payable from an annual levy on all taxable property in the City.

Chapter 76.2(1)(a) of the Code of Iowa states:

“The governing authority of a political subdivision ... before issuing bonds shall, by resolution, provide for the assessment of an annual levy upon all the taxable property in the political subdivision sufficient to pay the interest and principal of the bonds within a period A certified copy of this resolution shall be filed with the county auditor or the auditors of the counties in which the political subdivision is located; and the filing shall make it a duty of the auditors to enter annually this levy for collection from the taxable property within the boundaries of the political subdivision until funds are realized to pay the bonds in full.”

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As a result, pursuant to Chapter 76.2 of the Code of Iowa, a copy of the bond resolution should have been filed with Calhoun County for the County Auditor to verify the debt as a general obligation subject to “the assessment of an annual levy upon all the taxable property in the political subdivision.”

Recommendation – The City should consult bond legal counsel regarding this matter.

Current Status – Corrected. The City did not have a debt service levy for the fiscal years ended June 30, 2015 or June 30, 2016. The City repaid the County for the Debt Service Levy received in fiscal year ended June 30, 2014.

- (P) Annual Financial Report - Chapter 384.22 of the Code of Iowa requires the City’s Annual Financial Report contain a “summary for the preceding fiscal year of all collections and receipts, all accounts due the city, and all expenditures, the current public debt of the City...”. The City’s Annual Financial Report reported receipts, disbursements, transfers and fund balances which do not agree with the City’s records. In addition, the City did not report one debt issue and incorrectly reported another debt issue on the City’s Annual Financial Report.

Recommendation – The City should ensure all amounts included in future Annual Financial Reports are supported by the amounts recorded in the City’s records. In addition, the City should ensure that all debt of the City is accurately included on future Annual Financial Reports.

Current Status – Corrected. The City’s Annual Financial Report for the year ended June 30, 2015 agrees with the City’s records and the two debt issues were reported correctly.

Additional Finding as a Result of Follow-up Procedures:

- (Q) Certified Budget – Disbursements during the year ended June 30, 2015 exceeded the amounts budgeted in the public safety, public works, culture and recreation, general government, and debt service functions. Chapter 384.20 of the Code of Iowa states, in part, “Public monies may not be expended or encumbered except under an annual or continuing appropriation.”

Recommendation – The budget should have been amended in accordance with Chapter 384.18 of the Code of Iowa before disbursements were allowed to exceed the budget.